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RUEHKO/AMEMBASSY TOKYO 1888
RUEHUL/AMEMBASSY SEOUL 0847
RHEBAAA/DEPT OF ENERGY WASHDC
RUCPDO/DEPT OF COMMERCE WASHINGTON DC
RUEATRS/DEPT OF TREASURY WASHDC
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SUBJECT: KAZAKHSTAN: ECONOMIC AND ENERGY UPDATE, JULY 19-AUGUST 1

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¶1. SUMMARY: This information is drawn primarily from the Kazakhstani local press and has not been verified for accuracy.

-- Refinancing Rate is Reduced Again
-- Amendments to Currency Control and Currency Regulation Law
Approved

-- National Bank's Comments on New Currency Law
-- Banking Sector Updates
-- Wheat Harvest Forecast
-- Air Traffic Control System Improved
-- Business Results of KMG
-- KMG Becomes Sole Stockholder of KazMorTransFlot
-- Did Dutbayev Accomplish His Mission?

REFINANCING RATE IS REDUCED AGAIN

¶2. Starting July 10, the National Bank of Kazakhstan lowered the refinancing rate from 8.5 percent to 8 percent. According to a National Bank statement, this decision was driven by current trends in the financial market and the lower inflation rate. This is the second refinancing rate reduction in three months. The National Bank reported that the lower refinancing rate would help support and stabilize the domestic banking sector.

AMENDMENTS TO CURRENCY CONTROL AND CURRENCY REGULATION
LAW APPROVED

¶3. Kazakhstan's Law on Currency Regulation and Currency Control was amended and approved by President Nazarbayev on July 4. Among other provisions, the new law: softens currency regulation regimes; raises from \$10,000 to \$50,000 the ceiling on so-called transaction passports for export-import operations; removes notification requirements for opening accounts in foreign banks; and exempts duty-free trade from mandatory licensing. Additionally, the law broadens the spectrum of special currency regime measures that could be introduced should there be any "threat to the economic security of Kazakhstan and to the stability of its financial system." Among other amendments, the National Bank is now allowed to set the spread between selling and buying currency at exchange points.

NATIONAL BANK'S COMMENTS ON NEW CURRENCY LAW

¶4. In a July 28 interview with the "Kazakhstanskaya Pravda" newspaper, the National Bank's deputy governor, Daniyar Akishev, said that the spread for currency exchange will presumably be applied to the most widely used currencies, including the U.S. dollar, the euro, the pound sterling, the Russian ruble and the Chinese yuan. Akishev noted that the spread will be set in absolute values and not in percentages. For example, the spread between selling and buying rates of a certain currency will be set at a maximum of two tenge. Akishev also added that the spread will be applied temporarily during periods of panic buying of foreign currencies.

BANKING SECTOR UPDATES

¶5. According to Interfax-Kazakhstan, "Astana-Finance" JCS (AF) intends to present a plan for internal and external debt restructuring to its creditors by late August 2009. At a July 16 meeting in London between top AF managers and creditors, Elmira Ibatullina, chairwoman of the Managing Board, said the two sides were able to come to an understanding on a number of issues. AF hopes to reach agreement on a restructuring plan by late September 2009. Ibatullina said that the company wants to save its reputation and maintain relationships with banks willing to provide assistance. The external debt of the company is \$1.148 billion, including \$688.8 million debt on Eurobonds.

¶6. Renaissance Capital's report on Kazakhstani banks said that "the financial position of Halyk Bank and CenterCredit Bank are the best among the domestic banks; the financial position of Kazkommertsbank is not as good, and ATF Bank will need help from its parent, UniCredit Group." In the opinion of Renaissance Capital, distressed assets account for about 30 percent of the banking sector's total assets. If the banks make provisions to cover all doubtful assets,

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their registered capital will be far below the threshold set by the Financial Supervision Agency (FSA). However, Renaissance Capital does not see any serious problems with that, as the banks may increase their equity capital (or make provisions) from their profit or debts due in the future periods.

¶7. According to the FSA, the banking sector recorded a \$613 million net loss in June 2009, for a year-to-date net loss totaling \$1.5 billion. Sector assets and loans declined by 0.2 percent and 0.4 percent month-on-month respectively, while deposits increased by 2 percent. Thus, the loans-to-deposit ratio of the sector fell to 190 percent from the previous level of 195 percent. Local experts believe this official data confirms the trend of deteriorating asset quality.

WHEAT HARVEST FORECAST

¶8. According to Agriculture Minister Kurishbayev, Kazakhstan can harvest nearly 14 million tons of wheat this year, or 1.5-2 million tons more than in 2008. This would be possible, Kurishbayev continued, if the August weather is favorable, and the harvesting campaign begins on time. Early in July, the Minister said that wheat exports in 2009, including wheat surpluses from the last year, have the potential to reach 7-8 million tons, marking 2 million tons in growth compared to last year.

AIR TRAFFIC CONTROL SYSTEM IMPROVED

¶9. National air traffic control company "KazAeroNavigatsia" reported that four major air traffic control centers will be opened in Astana, Aktobe, Almaty, and Shymkent. KazAeroNavigatsia director general Sergey Kulnazarov said this modernized and advanced control system would replace a system composed of eighteen disaggregated points. Kulnazarov added that the Aktobe center, which will serve the entire Western Kazakhstan region, is furnished with Lockheed Martin equipment.

BUSINESS RESULTS OF KMG

¶10. The volume of oil and gas condensate extracted during the period January-June 2009 amounted 9 million tons, marking a 1.2 percent increase over the same period of 2008. The volume of oil transported via main pipelines increased by 3 percent compared to the same period last year, totaling 30.4 million tons; gas transportation was 46.5 billion cubic meters. Oil transported by water exceeded projected levels by 23 percent, due to intensive shipments in shipments to Makhachkala (Russia), Neka (Iran), and Baku (Azerbaijan). Consolidated profits for KazMunaiGas (KMG) were 39 billion tenge (about \$259.3 million), 22 percent higher than projected. The national budget received 248 billion tenge (approximately \$1.65 billion), nearly 15 percent of all national budget revenues collected in the first half of 2009.

KMG BECOMES SOLE STOCKHOLDER OF KAZMORTRANSFLOT

¶11. KazMunaiGas recently acquired a 50 percent stake in the national maritime shipping company, KazMorTransFlot. The stock was transferred from the National Welfare Fund Samruk-Kazyna.

DID DUTBAYEV ACCOMPLISH HIS MISSION?

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¶12. According to the Kazakhstan Telegraph Agency (KazTAG), former Kazakhstani intelligence chief Nartai Dutbayev was dismissed as Vice President of Kazatomprom, a position he has held since September

¶2008. From 2001-2006, Dutbayev served as the head of the National Security Committee (KNB), Kazakhstan's main intelligence agency. From 2006-2008, Dutbaev served as rector of the KNB Academy. KazTAG could not confirm whether or not Dutbayev's dismissal was part of a recent government purge of top officials at Kazatomprom.